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The Voice of Mineral Exploration/Spring-Summer 2015

CAPITAL MARKET REFORM AND THE STATE OF MINERAL FINANCE

IN CONVERSATION WITH PDAC'S NEW EXECUTIVE DIRECTOR ANDREW CHEATLE

BREAKING DOWN BUDGET 2015

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PDAC 2015: Bringing the world's mineral industry together

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PROSPECTORS & DEVELOPERS ASSOCIATION OF CANADA

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Spring-Summer 2015

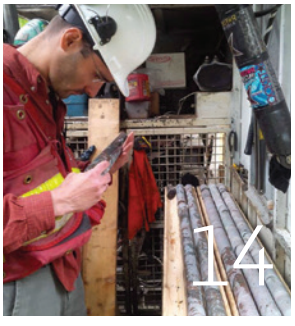

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Photo on page 14: Government of Canada

ON THE COVER: PDAC President Rod Thomas presenting Don Lindsay, President and CEO of Teck, with a commemorative plaque at PDAC 2015 for Teck's nine consecutive years of being the Diamond Sponsor of the PDAC Convention.

INDUSTRY NEWS

CANADA'S FINANCE MINISTER JOE OLIVER RENEWS METC

At the start of PDAC 2015, the Honourable Joe Oliver, Minister of Finance, announced the proposed extension of the **15%** Mineral Exploration Tax Credit (METC) until March 31, 2016. Often referred to as the "lifeblood" of junior mineral exploration, METC assists companies in securing capital and keeping investment flowing in volatile market conditions. Since 2006, the METC has helped junior mining companies raise over **$5.5 billion** for exploration. In 2013, more than **250 companies** issued flow-through shares eligible for the METC to more than **19,000** individual investors.

JEFFREY DAVIDSON NAMED CANADA'S NEW CSR COUNSELLOR

The Honourable Ed Fast, Minister of International Trade, appointed Jeffrey Davidson as Canada's Corporate Social Responsibility (CSR) Counsellor on March 1 at PDAC 2015. Established in 2009 under Canada's first CSR strategy, the Office of the CSR Counsellor was created to ensure that Canadian companies adopt best practices while operating abroad.

Following a 2014 review of the program, the mandate of the office of the CSR Counsellor was refocused on preventing, identifying and resolving disputes in their early stages, as well as increasing outreach with Canadian companies to ensure CSR guidelines are incorporated in their operating approach.

A professor at Queen's University's The Robert M. Buchan Department of Mining, Jeffrey Davidson has 35 years of international industry experience in both public and private roles. The CSR Counsellor appointment is a three-year term.

CANADIAN AND ONTARIO GOVERNMENT FUND JOINT INFRASTRUCTURE STUDY IN NORTHERN ONTARIO

The Honourable Greg Rickford, Federal Minister of Natural Resources and Minister for the Federal Economic Development Initiative for Northern Ontario, along with the Honourable Michael Gravelle, Ontario Minister of Northern Development and Mines, announced a joint study of an all-weather transportation corridor in the region at PDAC 2015. Each government committed to invest $393,814 to enable the Webequie First Nation, in partnership with the First Nations of Eabametoong, Neskantaga and Nibinamik, to complete a regional community service corridor study.

WORKING GROUP ON NATURAL RESOURCES DEVELOPMENT RELEASES REPORT ON ABORIGINAL PARTICIPATION

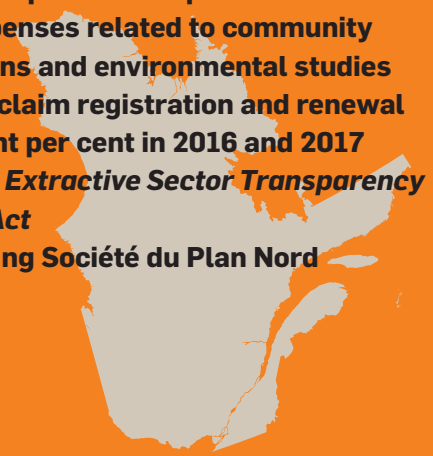
On March 3, the Assembly of First Nations (AFN) and Aboriginal Affairs and Northern Development Canada (AANDC) Working Group on Natural Resources Development released its report, *Advancing Positive Impactful Change: Finding the Ways and Means for First Nations to Fully Share in Natural Resource Development*.

The working group hosted two sessions in Edmonton and Toronto with First Nations leaders and industry experts that focused on governance, environment, prosperity and finance. The report outlines recommendations on how to increase Aboriginal participation in natural resource development projects based on discussions from the working group sessions, including the establishment of an independent resource centre to provide practical and technical information to allow First Nation governments, businesses and individuals to participate more in the development of natural resources.

Government of Quebec tables 2015 Budget

The government of Quebec tabled its 2015 budget on March 26. While the province moves forward with its zero deficit mission, there was some good news for the mineral exploration and mining industry. Highlights of the proposed 2015 budget include:

- **$1 billion Capital Mines Hydrocarbures fund. With $200 million already put aside and another $800 million in follow-on funding being prepared the fund is close to being launched**
- **Maintaining the current flow-through share system and resource tax credit**
- **Expanding exploration expenses to include expenses related to community consultations and environmental studies**
- **Increasing claim registration and renewal fees by eight per cent in 2016 and 2017**
- **Tabling the *Extractive Sector Transparency Measures Act***
- **Implementing Société du Plan Nord**



Ontario Government supports remote regions and regulatory development in 2015 Budget

On April 23, Ontario's Finance Minister, the Honourable Charles Sousa, released the province's 2015 budget.

The Ontario government pledged its continued commitment to infrastructure development, including transportation in the Ring of Fire area, located about 540 kilometres northeast of Thunder Bay. The province has dedicated $1 billion for strategic infrastructure development in the area and used the 2015 Budget to renew its call for the federal government to match the amount is a step in the right direction.

The 2015 Budget also outlines the province's plans to reduce business regulation by moving ahead with the *Better Business Climate Act*, which was enacted in December 2014. The act will reduce unnecessary regulatory burdens and practices that cost businesses time and money. By the end of 2017, the province's target is to reduce compliance costs by $100 million.

CANADA RESHAPES DEVELOPMENT IN NORTH WITH ARCTIC ECONOMIC COUNCIL

April 24 marked the end of the Honourable Leona Aglukkaq's, Canada's Minister of the Arctic Council, two-year term as Chair of the council. Canada's legacy will be the creation of the Arctic Economic Council, a separate body made up entirely of the private sector that focuses on economic development in the North.

The international body was founded in 1996 and is made up of representatives from eight nations and six Aboriginal groups who work together on shared foreign policy issues in the Arctic. Canada's decision to focus on economic development was a departure from the council's traditional mandate, which historically focused on environmental protection.

In conversation with **Andrew Cheatle**

Q&A

PDAC's new Executive Director shares his thoughts on what it was like being at the helm during PDAC 2015, the challenges and opportunities facing the industry, and how the PDAC is putting its members first

Q. You made it through your first PDAC Convention as Executive Director. What were some of your impressions and fondest memories of the event?
A. The main thing that stood out to me is that our annual convention truly is where the world's mineral industry meets. In addition, it was a great honour to take part in various sessions and functions in an official capacity, such as the Awards Evening. I think Robert Friedland from Ivanhoe Mines, who spoke at the Commodities and Market Outlook, summed it up best when he said that the Awards Evening is the "Oscars of the mining industry." It was a big thrill for me to be a part of that event and to present the PDAC Environmental & Social Responsibility Award to Noront Resources. On a personal note, I also enjoyed carving out a few hours to walk around the Investors Exchange and Trade Show to meet attendees and catch up with friends and colleagues.

Q. Since starting at the PDAC in early February, what have you learned about the association that you didn't know before?
A. In addition to the PDAC's world-renowned convention, as well as our leadership in such areas as Aboriginal affairs and CSR, I'm excited and impressed at just how well connected the PDAC is with the Government of Canada. It is evident that the government has tremendous respect for the PDAC's input into the policies that shape our industry, as reflected in how they seek out our advice on a range of policy and advocacy issues.

Q. Tell us a bit about your professional background.
A. I have worked in the minerals industry for more than 25 years—from the rock face as a 'beat geologist' to the boardroom as President and CEO, and Director of a junior exploration company. Over the years I have spent time working in underground mining, and on domestic and international exploration projects on five continents, always with a keen interest in CSR and capital markets. I have also been actively involved as a volunteer with the Association of Professional Geoscientists of Ontario (APGO), where I recently held the position of President.

Q. Why did you decide to take on this role at the PDAC?
A. This was a tremendous opportunity as PDAC is a national and international leader when it comes to advancing mineral exploration and development. In addition, I accepted the role of Executive Director to make a positive impact on the industry and to serve our members in promoting Access to Capital, Access to Land and Aboriginal Affairs. For me, this role is very exciting. It brings together many aspects of my work, leadership and management experience to the national and international stage.

Q. Over the past couple of years while serving as President and CEO, Director at Unigold, what were some of the projects that your company was working on and some of the challenges that you needed to overcome during the economic downturn?
A. While at Unigold, which is a junior explorer, we were working on projects in the Dominican Republic. It's still in business and the discoveries that we made are still there as the company remains an ongoing concern. It became increasingly more difficult to raise finance and that obviously impacts the ability to explore at the rate at which you would like to. We were

PDAC Executive Director Andrew Cheatle speaking at the CSR Event Series at PDAC 2015.

Q&A

"The PDAC has an important role to play in advising governments and investors on how a sustainable mineral industry is crucial to Canada's economy and prosperity."

— ANDREW CHEATLE

CLOCKWISE FROM TOP LEFT
Andrew and the Honourable Ed Fast, Minister of Foreign Affairs, at PDAC 2015; PDAC President Rod Thomas and Andrew speaking with Peru's Ambassador to Canada, Jose Antonio R. Bellina, at the PDAC Convention event in Ottawa in February; speaking with students during PDAC 2015 at the PDAC Survival Skills event; presenting the Environmental & Social Responsibility Award to Noront Resources during PDAC 2015.

BIOGRAPHY

As a Professional Geoscientist and graduate of the Royal School of Mines at Imperial College London, Andrew has worked in mining and mineral exploration in both the senior and junior mining sectors as an exploration geologist, mine geologist manager and executive.

Prior to joining PDAC, Andrew served as President and Chief Executive Officer, Director at Unigold Inc. where he oversaw the delivery of the company's gold mineral resource at its flagship property in the Dominican Republic. Before joining Unigold, Andrew worked in numerous senior roles as Vice President Exploration at Treasury Metals Inc., General Manager, Director at Landore Resources Canada Inc. Principal Geologist at AMEC plc, Chief Geologist at Goldcorp Inc./Placer Dome Inc., and Mineral Resource Manager with Anglo American Corporation.

Over his 25-year career, Andrew has worked extensively with Boards of Directors, governments, not-for-profit and public organizations where he has been a strong advocate for the minerals industry, notably through his volunteer work as President and Councillor with the Association of Professional Geoscientists of Ontario (APGO).

Andrew earned a Bachelor of Science (Hons) in Geology from the Royal School of Mines at Imperial College London and a Master of Business Administration from Capella University. He currently serves as Past President of the Association of Professional Geoscientists of Ontario, is a Member of the Presidential Advisory Committee–Economic Development at Lakehead University, and has been a Fellow at the Geological Society of London since 1999.

Q&A

fortunate to have the ISC, part of the World Bank Group, as an investor, which enabled us to extend our work into the downturn.

Q. How do you think your experience as President of an Ontario junior will help you lead a national organization?
A. Good question. I've been fortunate throughout my career to gain both national and international experience as a geologist and consultant, and as an industry executive. I understand the real day-to-day challenges juniors and geologists in the field are facing, as well as some of the broader hurdles the industry must overcome. Specifically, my most recent position as President and CEO of a junior exploration company allowed me to be intimately involved with capital markets, CSR activity, and networking with key industry people, which will be a great help as Executive Director.

Q. You mentioned that you were previously the President of the APGO. What lessons did you learn working for a regional association that you feel can be applied to a national association?
A. Some of the key things I learned were that you represent your members and that is very, very important to remember. You also, in the case of the APGO, represent the professional geoscientist in Ontario and, where appropriate, on the national level. At the PDAC we represent our members both nationally and internationally, but because we are so large, as the government has reminded us, we represent the industry in so many ways in addition to the individual members. Currently, our members want us to continue to advocate for certain policy measures to support the industry, such as the Mineral Exploration Tax Credit (METC) and that the Canadian Exploration Expenses (CEE) be included into the METC. We still provide a very big forum, particularly through our convention for our members to meet, for junior explorers to meet with major companies and vice versa to help facilitate the business environment. Furthermore as a Board member of the APGO, I gained a great deal of experience in terms of governance and working with staff.

Q. What are the biggest obstacles and challenges facing the industry in 2015?
A. The immediate concern is restoring investor confidence in the sector, along with ending a prolonged downturn for the broader industry. The PDAC has an important role to play in advising governments and investors on how a sustainable mineral industry is crucial to Canada's economy and prosperity, and why it is a rewarding place to invest.

Q. What opportunities do you see for prospectors and juniors in the coming year?
A. This is a great time to seize 'value for money' opportunities and attend to mergers and acquisitions that make business sense. Some of the most successful mining entrepreneurs that I know started in tough markets and delivered success for themselves and investors as the market cycle turned positive.

Q. What will be some of your priorities for the association as PDAC Executive Director?
A. The PDAC has a team of highly-skilled staff, Board of Directors, executive, committees and volunteers that will maintain the organization's strategic focus on Access to Capital, Access to Land and Aboriginal Affairs. And after meeting with numerous international delegations and ministers of mines at PDAC 2015, it is clear that the PDAC is uniquely positioned and has an important role to play in helping to facilitate government-company interaction. Maintaining and building the PDAC brand will also be an important part of the job, and as we look ahead to the upcoming year leading into PDAC 2016, we will strive again to deliver exceptional value to our members in promoting the industry both nationally and globally.

Q. Outside of work, what are some of your past times?
A. Like many people, family time is very important to me as I have two teenage children, a 17-year-old son and 19-year-old daughter. I enjoy travelling as well, particularly getting into the mountains and hiking. I also enjoy sitting down with a good book and am currently plowing my way through a new translation of Boris Pasternak's famous *Dr. Zhivago*. **c**

A LOOK BACK AT PDAC 2015

BY KATHLEEN NAPIER

The 83rd edition of the PDAC International Convention, Trade Show & Investors Exchange once again brought together the world's mineral exploration and mining community to discuss the latest trends, technologies and challenges shaping the sector.

Over 23,500 investors, analysts, mining executives, geologists, prospectors and government officials from 116 countries attended the four-day convention in downtown Toronto, including 1,280 students, 240 accredited media, 30 federal Members of Parliament, as well as eight Cabinet Ministers, and six provincial and territorial Ministers.

"It was another successful year at the PDAC. Despite the short-to medium-term challenges that confront our industry, the mood at PDAC 2015 was very optimistic for the future of our business," says PDAC President Rod Thomas. "The PDAC Convention is designed to help the sector find the creative answers it needs to meet the challenges it faces. This year the convention offered a number of sessions examining how to leverage current funds and look for new possible options, including alternative financing. The convention itself remains the industry's premier meeting place for deals and options on properties to germinate or take place."

PDAC 2015 started with a flurry of announcements in support of Canada's mineral exploration and mining industry, including the appointment of Jeffrey Davidson as Canada's Corporate Social Responsibility (CSR) Counsellor for the extractive sector, and the announcement of a joint study of an all-weather transportation corridor in the Ring of Fire region by the federal government and the Ontario government.

In addition, for the first time in the history of the PDAC Convention, a sitting Federal Finance Minister attended. The Honourable Joe Oliver, Federal Minister of Finance, announced the Government of Canada's proposal to renew the 15 per cent Mineral Exploration Tax Credit (METC) for one year during his speech at the Media Reception Sunday evening.

"The provincial and federal governments in Canada are important partners in creating conditions that allow the mineral industry to flourish nationally and internationally," says PDAC Executive Director Andrew Cheatle. "Over the years the PDAC Convention

has grown beyond a traditional trade show and investors exchange to include conversations around industry and community best practices. As the show grows it continues to expand, offering a range of public policy discussions and attracting stakeholders and government officials from municipal to international levels. We're proud to facilitate the dialogue between industry, communities and policy leaders. Looking forward, we expect this dialogue to deepen and stronger tripartite relationships and understanding to develop."

Since its inception in 1932 the PDAC Convention has grown steadily year over year, and this past year was no exception as the convention was expanded into the North Building of the Metro Toronto Convention Centre (MTCC) to host additional exhibit space, as well as the Core Shack. A crowd favourite, the Core Shack showcased the latest discoveries from around the world, including Finland, Mongolia, Panama, Mexico, Peru, Colombia, Canada and the United States of America.

PDAC 2015 featured 19 Technical Sessions covering a range of topics, from the Copperbelt in Central Africa to operating and investing in Latin America to Canada's diamond industry. The program also featured a keynote session on the role of retail investors in the junior mining sector. "The convention is designed to help the sector find the creative answers it needs to meet the challenges it faces," adds Thomas. "Programming reflects economic and industry trends, and aims to provide networking and educational opportunities to encourage a healthy mineral exploration industry."

The Corporate Social Responsibility (CSR) Event Series returned to the PDAC Convention for its sixth year. The series invites industry, government and civil society to participate in dialogue and peer-learning sessions on issues related to responsible exploration and mining. The PDAC 2015 series included a session organized by the World Gold Council and Intergovernmental Forum on Mining, Minerals Metals and Sustainable Development called The Socio-Economic Contribution of Responsible Gold Mining. The session examined some the key findings of the World Gold Council's 2nd annual *Responsible Gold Mining Value Distribution Report* and the contribution that responsible gold mining can make to social and economic development.

PDAC 2016 INFORMATION

Hotels
Reservations open on Tuesday, June 23 at 11:00 am (EDT). A list of participating hotels, noting the PDAC preferred rate, will be posted to the Hotels page of the convention website on Thursday, June 18.

Priority Renewal Exhibitors
Priority Renewal applications and floor plans will be available July 14 at 10:00 am (EDT) on the convention website. Renewing Exhibitors have priority renewal over the exhibit space they occupied at PDAC 2015. The priority renewal deadline is August 21 by 5:00 pm (EDT). After this date, un-renewed booth spaces will be opened to New Exhibitors. Apply early to renew your space!

New Exhibitors
New Exhibitor application forms will be available on the convention website starting August 27 at 10:00 am (EDT). Once priority renewal assignments have been completed, all un-renewed exhibit space will be assigned to New Exhibitors on a first-come, first-served basis. Submit your application form early! All booth assignments will be confirmed after October 14 via email.

This year's Aboriginal Program drew over 700 attendees, including over 500 self-identified Aboriginal participants. One of the highlights of this year's program was the Reaching Agreement, Maximizing Benefits session that examined key issues in company engagement and Aboriginal participation. The session, chaired by PDAC's Aboriginal Committee Chair Michael Fox, featured a panel discussion on the unique nature of exploration agreements, a presentation by the Working Group on Natural Resources Development, as well as a presentation on the subject of consent that was followed by a panel of community leaders who spoke about their perspectives on consent in relation to mineral development projects.

"Programs like the CSR Event Series and the Aboriginal Program offer industry, organizations, communities and governments from all levels the chance to participate in open dialogue on best practices and unique challenges facing communities and regions across Canada," says Andrew Cheatle. "We're proud of our programming and the conversations we've facilitated over the years that have helped improve relationships between our industry, the communities where we work and the government." **c**

Kathleen Napier is the PDAC's Coordinator of Public Relations & Social Media

PDAC 2015 →

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2015
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Student-Industry
Networking
Luncheon
PDAC

3300
3100
2900
2700
2500
SILVER
WHEATON

PDAC 2015 CONVENTION STATISTICS

GENERAL INFORMATION

Total number of convention attendees

23,578

Percentage of international attendees **25%**
Outside Canada the largest number of attendees came from the **United States, Australia, Peru, England, Mexico, Chile, China, Argentina, Brazil, South Africa** and **Germany**
Number of countries represented **116**
Number of student attendees **1,280**
Number of self-identified Aboriginal attendees **More than 500**
Number of accredited media **240**
Number of sponsors **46**
Total number of visits to mobile website

34,654

TRADE SHOW & TRADE SHOW NORTH

Total number of booths

841

Total number of exhibiting organizations **507**
Number of governments exhibiting **66**

INVESTORS EXCHANGE

Total number of booths **512**
Total number of exhibiting organizations **480**
Total number of Prospectors Tent booths **13**

CORE SHACK

Total number of exhibiting companies **50**

PRESENTATIONS & WORKSHOPS

Total number of Technical Sessions **19**
Total number of Short Courses/ Workshops **11**
Total number of Presentation Rooms & Reception Rooms **29**
Total number of Corporate Presentation Forum for Investors presentations **120**
Total number of speakers

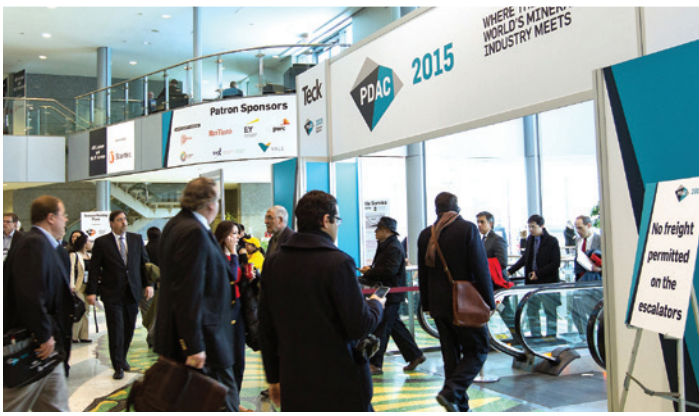
492

CANADIAN GOVERNMENT REPRESENTATION

Federal Members of Parliament

30

including **8** Cabinet Ministers



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Towards a Common Regulator: The Capital Markets Regulatory System

BY SAMAD UDDIN

Canada is a resource-rich country blessed with a vibrant mining sector that contributes to the economic prosperity of all Canadians. Today, as the appetite for commodities in global markets continues to grow, particularly from emerging economies, Canada stands to greatly benefit from its resource endowment. In addition to being a global leader in exploration and production, Canada is also a global hub for mining finance, especially when it comes to raising capital for exploration. Canada's emergence as a capital raising centre has been driven by constant innovation in capital markets. Notwithstanding this success, Canada cannot rest on its laurels. Countries around the world are competing to become centres for mining finance, and bold steps are needed if Canada is to remain the best place in the world to raise risk capital for mineral exploration.

Retaining our status as the preeminent jurisdiction for mining equity finance will require ongoing capital market innovations. Canada has a long history of adopting innovative technologies and policies to facilitate capital-raising for start-up companies. In 1969, for example, the TSX became the first exchange in North America to introduce decimal trading, followed by the adoption of full electronic trading. To serve the unique needs of junior companies focused on raising speculative capital from risk tolerant investors, several venture exchanges emerged such as the Vancouver Stock Exchange (VSE) and the Alberta Stock Exchange (ASE), which later merged into the Canadian Venture Exchange (CDNX). This is now called the TSX Venture Exchange, which dominates mineral exploration finance both domestically and globally. The TSX Venture would later push the envelope further by introducing the concept of a capital pool company (CPC) to support new companies with no revenue to access capital.

Recognizing that the high-risk nature of mineral exploration created significant barriers to attracting investment, Canada also adopted innovative fiscal policies to incentivize risk-tolerant investors to put money into this nation-building industry. The super flow-through share system, a Canadian innovation, works so well that it has been adopted in Australia to help attract risk-capital to mineral exploration.

Despite these innovations, Canada's global dominance as a centre for mining finance is under threat as the sector continues to face a range of challenges on several fronts: declining shares of global minerals industry financing going to junior exploration companies; limited availability of risk capital from retail investors; perceptions of Canada as an

expensive jurisdiction to raise money; and fragmentation within Canada's capital markets. This situation has not been aided by media portrayals of junior mining companies as mythical creatures like zombies due to the fact that they have been struggling to raise capital to conduct exploration, with large numbers of them only able to raise 'survival capital' deemed just enough to keep the lights on. (For full detailed statistics on mineral financings, see next page.)

In response, PDAC organized roundtables across the country in 2013 to engage its members in a collaborative discussion about the key financing challenges facing the Canadian minerals industry, and to identify possible solutions. Three priority areas for action emerged, including the need to: 1) facilitate access to a wider base of investors and expand the pool of capital available to the mineral industry; 2) reduce the costs of raising capital in Canada; and 3) enhance enforcement efforts. To address these three challenges, PDAC has adopted a two-pronged strategy: regulatory innovation in the exempt market space, and support for the Capital Markets Regulatory (CMR) System.

The CMR is a generational opportunity. The governments of British Columbia, New Brunswick, Ontario, Prince Edward Island, Saskatchewan and the Yukon, as well as the Government of Canada, have all agreed to join the CMR, which is currently being developed through the merger of existing regulations from participating members. Although this is a reasonable first step, and we commend the participating members, we encourage other jurisdictions to take part to further Canada's legacy of regulatory innovation. The current regulatory structure with 13 regulators is inefficient and fragmented, plagued by onerous and costly regulatory requirements that weaken Canada's status as the global leader in exploration and mining. If the system does not improve and foreign competition increases, companies could be motivated to explore the possibility of moving their capital market operations to other jurisdictions, which would invariably hurt Canada's financial sector and its mineral industry.

"As the CMR develops, bold steps are needed so that Canada remains the best place in the world to raise risk capital for start-up and non-revenue generating industries."

As the CMR develops, bold steps are needed so that Canada remains the best place in the world to raise risk capital for start-up and non-revenue generating companies. This cannot be achieved through harmonization alone. This is why PDAC is calling on participating jurisdictions, and other jurisdictions thinking of joining, to push the CMR to adopt a transformative regulatory framework that will solve the challenges identified above. Industry associations like the PDAC should be consulted in the design and implementation process so that the issuer perspective, which is not often proportionally represented during the period of consultation, is taken into account. PDAC has a vision for Canada's forthcoming cooperative regulator—one that makes Canada a global mecca for risk-tolerant capital to be raised for speculative and dynamic entrepreneurial companies while balancing the need for investor protection. It's our hope that such a vision becomes a reality.

Samad Uddin is the PDAC's Director of Capital Markets.

The State of Mineral Finance

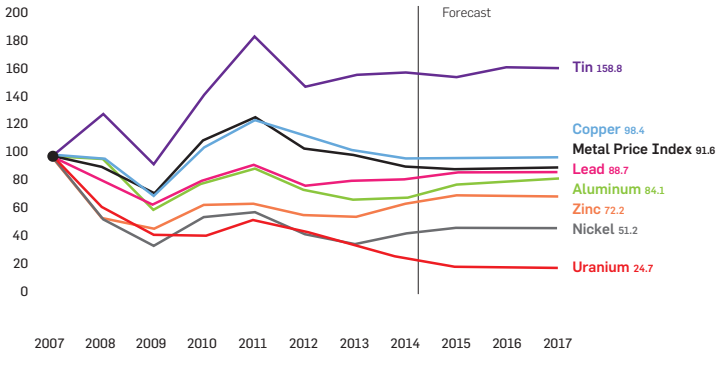
Throughout 2014 the minerals industry experienced a wave of share consolidations, mergers and acquisitions, de-listings from exchanges, as well as weak share prices and low discovery rates. While the downturn may have bottomed out, the forecast for 2015 is another challenging year for the sector with the turnaround not expected anytime soon.

- Total financing activity, including debt and equity, across all exchanges in the mining sector has dropped significantly, falling on average by **13.6%** annually since 2007 (for a total decline of over **60%** in that period). The overall decline in 2014 was not as dramatic, dropping by **1%** over 2013 levels, as financing activities start to stabilize. In terms of the number of deals, a total of **2,895** financings were announced globally (**2,707** equity, **188** debt). This was a drop from the peak of 3,827 total financings announced in 2007.

- As average prices continue to decline—share prices for mining companies on the TSXV have declined by a drastic **83%**, from **62 cents** in 2007 to **11 cents** in 2014—it is becoming too costly, restrictive and dilutive to issue new shares. Debt issuance is rarely an attractive alternative for most juniors, as they do not typically have the revenues required.

- As major economies continue to face uneven and anaemic growth, metal prices are expected to face similar prospects driven by weak demand. Aluminum is the exception. A robust **17%** price increase is expected in the next three years (2015-2017) followed by nickel (up **7.1%**), zinc (up **6.8%**) and lead (up **5.5%**). Copper prices are projected to remain at their current levels and uranium is projected to experience a **20%** drop over the next three years.

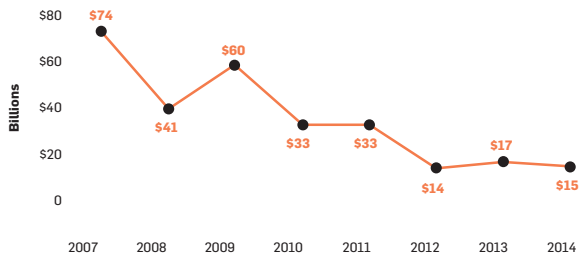
Commodity Price Index and Metal Price Index (2007=100)



Note: Iron ore is excluded from this chart
Source: IMF commodity forecasts and PDAC calculations

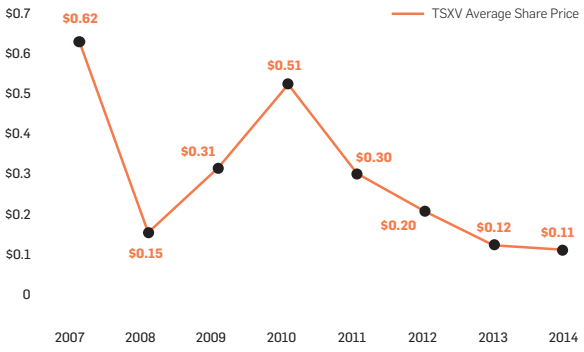
> "Share prices for mining companies on the TSXV have declined by a drastic 83%, from 62 cents in 2007 to 11 cents in 2014."

Global Mining Equity Financing



Source: MECO, Gamah International Ltd.

Average Share Price for Mining Companies Listed on the TSXV



Source: TMX Group and PDAC calculations

- The Venture exchange did manage to improve financing in Q4 2014 compared to Q4 2013, as financing increased by **14%** to **$778 million**. Despite this improvement, Q4's result was far lower than the peak reached in Q2 2007 when a total of **$3.2 billion** was raised on the TSXV. The corresponding drop in financings for exploration by issuers listed on Canadian exchanges was far worse, falling off a cliff from **$1.3 billion** in Q4 2007 to a low of **$150M** in Q4 of 2014 (an **88%** drop). Looking at yearly totals, from 2007 to 2014 financing for exploration fell dramatically by **91%**.

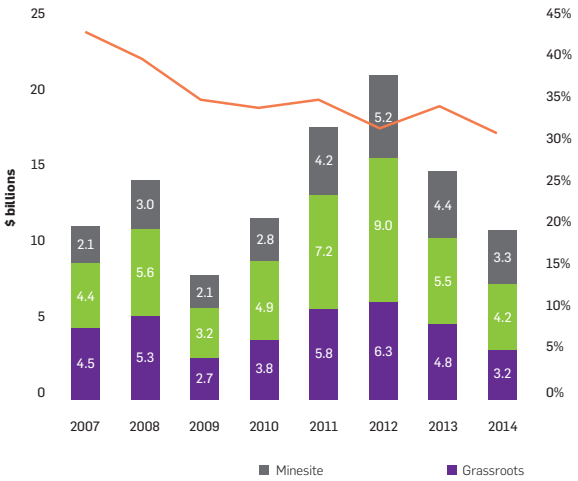
- As expected, during this downturn the number of M&A deals increased in 2014 both globally and in Canada. **Sixty-two** deals were announced in Canada in 2014 compared to **158** globally. By value, global M&A activities have fallen since peaking at **$64.5 billion** in 2012 to **$16.7 billion** in 2014. The value of Canadian M&A activities has been steady at around **$6 billion** between 2012 and 2014.

- Globally, total exploration budgets dropped by **26%** in 2014, reflecting weak commodity prices and the limited prospects for a robust increase in demand. Canada and Australia continued to be the two top destinations for exploration, attracting **$1.5 billion** (**13.9%**) and **$1.3 billion** (**11.7%**) respectively. In particular, grassroots exploration in Canada fell by **37%** between 2013 and 2014, while spending on existing mine sites increased by **13.5%** and spending on late stage & feasibility fell by **25.5%**.

- Exploration companies increasingly relied on flow-through shares to raise risk capital, which will help many companies to hold onto their claims in Canada. Data from the PDAC's report *State of Mineral finance: 2015 Déjà vu* clearly reveals the important counter-cyclical role played by flow-through during the recent downturn. As overall financing levels for exploration fell, the proportion of financings using flow-through shares went up. Flow-through accounted for **72%** of all financing raised for exploration stage activities from 2012-2014, highlighting its importance as an incentive in attracting capital to the riskiest stage of the mining cycle.

- New exemptions along with a cooperative regulatory regime are major changes to the Canadian regulatory landscape that could have profound impact on the way junior issuers raise capital, expanding access to a wider pool of investors and potentially reducing the costs of raising capital. **c**

Exploration Budget by Stage



Source: SNL and PDAC calculations

BUDGET 2015: A LIFELINE FOR THE MINERAL EXPLORATION INDUSTRY

BY DEANNA PAGNAN

SUPPORT FOR THE MINERAL EXPLORATION AND DEVELOPMENT SECTOR IN BUDGET 2015

On April 21 the Honourable Joe Oliver, Canada's Minister of Finance, tabled Economic Action Plan 2015 that outlines the Government of Canada's budget for fiscal year 2015 to 2016. Budget 2015 included balanced budget legislation, and also marks the government's return to a surplus with a projected surplus of $1.4 billion for 2015 to 2016.

The introduction of Budget 2015, which would typically have been tabled in the House of Commons in February, was delayed due to changing economic circumstances produced by the sharp drop in oil prices. Despite the challenging economics, Budget 2015 provides support for Canada's mineral exploration and development industry, including many initiatives that PDAC advocated for on behalf of its members.

"The initiatives included in Budget 2015 will support investment, employment and research in Canada's mineral exploration industry, in addition to helping the industry remain competitive and a leader on the world stage," says PDAC President Rodney Thomas.

RENEWAL OF THE MINERAL EXPLORATION TAX CREDIT (METC)

PDAC was pleased to see the extension of the 15 per cent Mineral Exploration Tax Credit (METC) for flow-through share investors until March 2016. The METC has played an important role in ensuring that Canada remains a global hub for mining finance. Canadian stock exchanges have raised almost half of all global mine equity finance over the last decade, in large part due to the importance of flow-through shares and the METC. The METC has also helped Canada attract the largest share of global exploration expenditures since 2002, as the money raised with flow-through has to be spent in Canada.

"The association advocates for mineral exploration and development in Canada and around the world," says Thomas. "We spend a lot of time talking to politicians, particularly in Ottawa. We try to advance cases that we think will benefit the mining and exploration business. We asked to double the METC from 15% to 30%, but with the current state of the industry, including a decrease in oil prices, we understand that government finances would be adversely affected."

Renewing this incentive is particularly important during the current downturn in exploration financing, as global mineral-related financing has declined by 14% annually since 2007. Since 2006, the METC has helped mineral exploration companies raise over $5.5 billion for grass-roots exploration.

Renewal and expansion of the METC was a key recommendation of PDAC's pre-budget submission and PDAC will continue to advocate for this important program.

CANADIAN EXPLORATION EXPENSES (CEE)

Budget 2015 also committed to allowing the costs associated with undertaking environmental studies and community consultations, when incurred prior to obtaining an exploration permit, to be classified as Canadian Exploration Expenses (CEE). With CEE treatment these costs will

Canada

Contribution of Canada's Mineral Exploration and Mining Industry

Exploration & Deposit Appraisal Expenditures (2013)
$2.3 billion

Mineral Production Value 2013
$43 billion

Total Payments to Government and Government Agencies Workers Employed
$3 billion

Workers Employed
383,140

be immediately deductible, eligible to be renounced to investors using flow-through shares. For eligible projects, they may also qualify for the 15 per cent Mineral Exploration Tax Credit.

PDAC has long advocated for these changes and continues to work with government officials on their implementation.

"Renewal of the vitally-important METC and updating eligibility for Canadian Exploration Expenses will support the competitiveness of the Canadian mineral exploration industry," says PDAC Executive Director Andrew Cheatle. "PDAC welcomes these investments, particularly at this time when it is increasingly difficult for Canadian junior explorers to obtain financing."

RENEWAL OF THE TARGETED GEOSCIENCE INITIATIVE

PDAC applauds the renewal of the Targeted Geosciences Initiative (TGI), a federal program designed to improve exploration efficiency and effectiveness in established mining camps through innovation in methodologies, technologies and data processing. This program will help address a structural challenge faced by Canada's exploration industry—the increasingly greater depth at which discoveries are being made, particularly in established mining camps. The renewal of TGI, which stimulates brownfield exploration, complements last year's investment in the Geo-mapping for Energy and Minerals (GEM) program that attracts exploration investment in greenfields and data-poor northern regions of Canada.

PDAC is a strong advocate of investment in public geoscience and renewal of TGI was an important plank of PDAC's pre-budget submission.

INVESTMENT IN CANADIAN TRADE COMMISSIONER SERVICE

With an investment of $42 million over five years, Budget 2015 proposes to expand the footprint and resources of the Canadian Trade Commissioner Service to support Canadian firms with on-the-ground intelligence and practical advice on foreign markets. Support for increased capacity of the Trade Commissioner Service to support responsible exploration has been included in PDAC's submissions to the Department of Foreign Affairs and International Trade. PDAC is pleased to see additional resources dedicated to this service.

"The Canadian mining industry is active in over 100 countries and relies on the support of the Canadian Trade Commissioner Service when doing business," says Cheatle. "PDAC looks forward to the opportunity to work together with the Trade Commissioner Service on issues faced by the mineral exploration sector abroad."

Considering the deteriorating economic conditions and competing interests from various stakeholders for limited government resources, the development of Budget 2015 may have been particularly challenging. However, Budget 2015 delivers valuable supports to the mineral exploration and development industry, demonstrating the importance of the sector to Canada and PDAC's valuable role in providing public affairs leadership. **c**

Deanna Pagnan is the PDAC's Manager of Public Affairs

In addition to the welcome news about the METC renewal, CEE treatment and geoscience investment for the mineral exploration section, Budget 2015 included other positive initiatives that are aligned with PDAC program areas.

ABORIGINAL AFFAIRS

- $284.5 million over five years to support Aboriginal labour market programming.
- $30.3 million over five years for expansion of the First Nations Land Management Regime.

INNOVATION

- $23 million over five years to stimulate the technological innovation needed to separate and develop rare earth elements and chromite.

HUMAN RESOURCES DEVELOPMENT

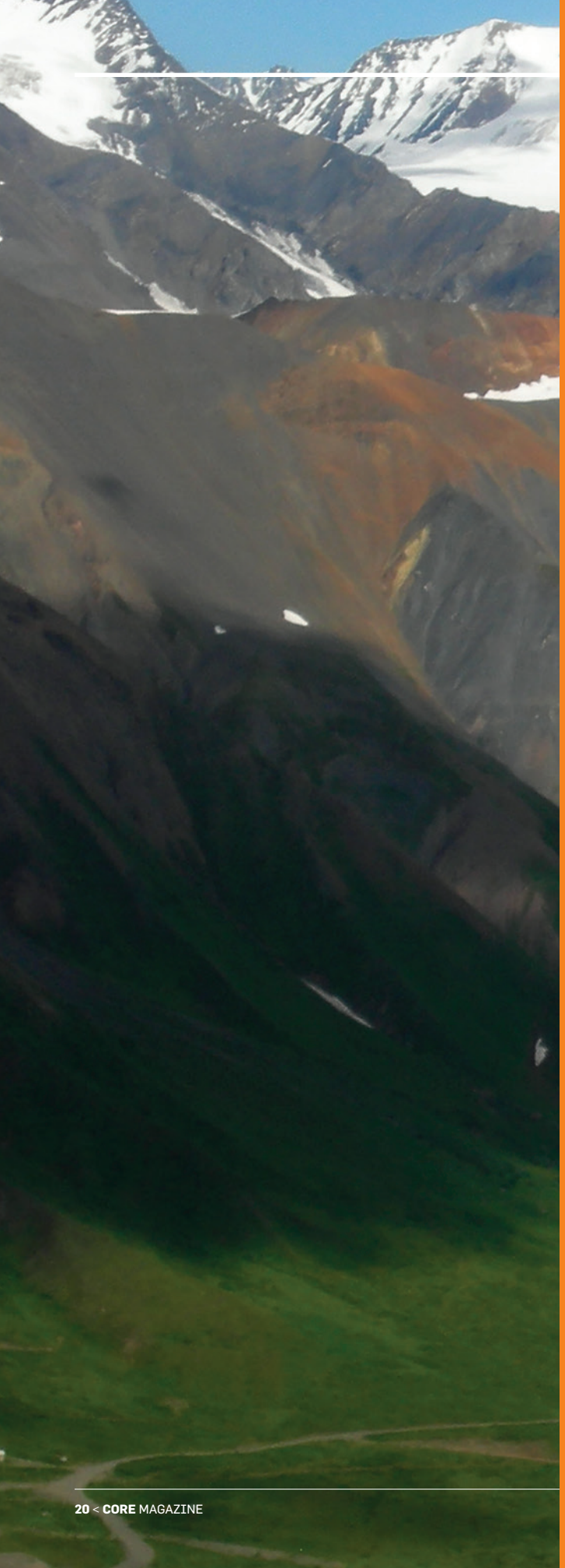
- $65 million over four years to business and industry associations to allow them to work with post-secondary institutions to better align curricula with the needs of employers.

INFRASTRUCTURE

- Increased borrowing limits for the Government of the Northwest Territories to $1.3 billion and for the Government of Nunavut to $650 million, which will give the territories greater flexibility in their fiscal planning as they consider future investments in infrastructure to support ongoing resource development.
- Support for meteorological and navigational warning services in the Arctic to facilitate the safe management of marine traffic and improving charting of the sea floor.

INTERNATIONAL TRADE AND INVESTMENT

- $50 million over five years to create an export market development program to share the financial costs with small and medium-sized enterprises as they explore and pursue new export opportunities.



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"The PDAC Convention is designed to help the sector find the creative answers it needs to meet challenges it faces."

— ROD THOMAS, PDAC PRESIDENT

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The Voice of Mineral Exploration
Spring-Summer 2015